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SOUTH SEA PETROLEUM HOLDINGS LIMITED

南海石油控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 076)

ISSUE OF US\$100,000,000 CONVERTIBLE DEBENTURES

AND

INCREASE IN AUTHORIZED CAPITAL

ISSUE OF US\$100,000,000 CONVERTIBLE DEBENTURES

The Directors announce that on 9 December 2009, the Company entered into a Subscription Agreement with the Subscriber for an aggregate amount of US\$100,000,000 6% interest Debentures due 2015. The net proceeds are intended to be used as capital reserve to increase graphite ore reserve and expand graphite production capacity in China.

The Conversion Price shall be HK\$0.0775 (or US\$0.01, the par value of the Company's Shares). Assuming the Debentures are fully exercised and converted, a maximum number of 10,000,000,000 New Shares will be issued and allotted, which represent 91.13% of the existing issued share capital of the Company as of the date of the Subscription Agreement, and represent 47.68% of the issued shares as enlarged by the issue of the New Shares.

Pursuant to the Subscription Agreement, none of the Debenture Holder shall be allowed to own, directly or indirectly, 5% or more of Shares in the Company's issued share capital from time to time, under any circumstances. Therefore no substantial shareholder, as defined under the Listing Rules, will be introduced to the Company as a result of the conversion of the New Shares. An application for the listing of, and permission to deal in, the New Shares will be made to the Stock Exchange.

The New Shares will be issued and allotted under the Special Mandate to be sought at the EGM of the Company. A circular containing, among other matters, further details of the Subscription Agreement together with a notice convening the EGM for the Shareholders to consider and (if thought fit) approve, among other matters, the Subscription Agreement and the transactions contemplated thereunder will be despatched as soon as practicable.

INCREASE IN AUTHORIZED CAPITAL

In order to facilitate the New Shares conversion, the Directors intends put forward a proposal to the Shareholders to increase the authorized share capital of the Company from US\$140,000,000 (divided into 14,000,000,000 Shares) to US\$500,000,000 (divided into 50,000,000,000 Shares) by the creation of an additional 36,000,000,000 Shares. Details of the increase in authorized capital will be included in the circular.

ISSUE OF US\$100,000,000 CONVERTIBLE DEBENTURES

Date of Subscription Agreement

9 December 2009

Parties

- The Company
- The Subscriber

Kelton Capital Group Limited, a private investment company involves in investing securities, debentures, government bonds and other financial instruments.

The Company confirms that, to the best of the directors' knowledge, information and belief, having made all reasonable enquiry, the Subscriber and its ultimate beneficial owner are third party independent of the Group and connected persons (as defined under the Listing Rules) of the Group.

Principal amount

US\$100,000,000

Maturity Date

9 December 2015

Interest

6% per annum

Completion of the Subscription Agreement

Completion of the Subscription Agreement is subject to:

1. the Shareholders granting their Special Mandate to the Directors to issue the New Shares;
2. the Listing Committee of the Stock Exchange granting approval for listing of, and permission to deal in, the New Shares.

Pursuant to the Subscription Agreement, no long stop date is set as a condition precedent.

Conversion

Debenture Holder shall have the right to convert the principal amount of the Debentures in whole or in part in multiples of HK\$10,000 into the New Shares at the prescribed Conversion Price within the Conversion Period. The New Shares will rank pari passu in all respects with the existing Shares in issue.

Conversion Price

The Conversion Price shall be US\$0.01 (or equivalent to HK\$0.0775, being the par value of the Company's Shares), which is

(i) a premium of approximately 64.89% over the closing price of HK\$0.047 per Share as quoted on the Stock Exchange on 9 December 2009, being the date of the Subscription Agreement;

(ii) a premium of approximately 61.45% over the average closing price of HK\$0.048 per Share as quoted on the Stock Exchange over the five consecutive trading days immediately prior to 9 December 2009;

(iii) a premium of approximately 61.45% over the average closing price of HK\$0.048 per Share as quoted on the Stock Exchange for ten consecutive trading days immediately prior to 9 December 2009.

The total gross proceeds from the issue of the Convertible Debentures amount to US\$100,000,000. After deducting related expenses, the net proceeds amount to approximately US\$94,900,000 and the net Conversion Price per Conversion Share is approximately HK\$0.0728 (or US\$0.0094).

The Conversion Price and the number of the New Shares will be subject to adjustment (as the case may be) for capitalization issue, rights issue, sub-division or consolidation of Shares or reduction of capital, in such case, the Company shall issue further announcement regarding the adjustments as when and where necessary and appropriate.

If the number of the New Shares to be issued, as a result of the relevant adjustment, exceeds the Special Mandate limit, the Company will seek for its Shareholders' approval, and a new application will be made to the Stock Exchange of the listing of, and permission to deal in, any extra Shares.

Effect of Conversion and Substantial Shareholder

The New Shares will be issued under the Special Mandate granted by the Shareholders at the EGM of the Company. Assuming the Debentures are fully exercised and converted, a maximum number of 10,000,000,000 New Shares will be issued and allotted, which represent 91.13% of the existing

issued share capital of the Company as of the date of the Subscription Agreement, and represent 47.68% of the issued shares as enlarged by the issue of the New Shares. Pursuant to the Subscription Agreement, none of the Debenture Holder shall be allowed to own, directly or indirectly, 5% or more of Shares in the Company's issued share capital from time to time, under any circumstances. If any Debenture Holder's Shares in the Company shall have exceeded 5% or more of the Company's issued share capital as enlarged by the issue of the New Shares after any conversion of New Shares, they are obliged to sell their Shares to independent third parties or sell the Shares in the open market before they convert any Debentures into additional New Shares, to maintain their shareholding level always below 5% in the Shares of the Company after conversion. In each conversion, Debenture Holder is required to provide an undertaking letter to the Company informing the Company of their shareholding immediate before and after such conversion, and undertaking that they will be holding less than 5% of the Company's Shares after such conversion. Therefore no substantial shareholder, as defined under the Listing Rules, will be introduced to the Company as a result of the conversion of the New Shares.

An application for the listing of and permission to deal in the New Shares will be made to the Stock Exchange.

History of Fund Raising Activities for the Past Twelve Months

On 4 August 2009, the Company entered into a subscription agreement to issue HK\$171,000,000 convertible debentures. As of the date of this announcement, none of the convertible debentures are converted into the Company's Shares and the proceeds have not been spent.

Shareholding Structure of the Company Before and After the Exercise of Conversion Rights Attached to the Debentures

	Immediately before the Debentures be converted into any New Shares		Assuming Debenture Holders of HK\$171,000,000 and US\$100,000,000 Convertible Debentures Elect to Fully Convert their Debentures	
	Number of Shares	%	Number of Shares	%
Palmsville Equities Inc. (Note)	32,000,000	0.29	32,000,000	0.13
Public:				
1. Debenture Holders of the outstanding HK\$171,000,000 Convertible Debentures	0	0	2,194,447,871	9.47
2. Debenture Holders of US\$100,000,000 Convertible Debentures	0	0	10,000,000,000	43.16
2. Other Public	10,940,239,359	99.71	10,940,239,359	47.24
Total	10,972,239,359	100.00	23,166,687,230	100.00

Note: Palmsville Equities Inc. is a company beneficially owned by Mr. Zhou Ling, the Chairman of the Company.

Voting Rights of Debenture Holder

Debenture Holder does not have any voting rights in Shareholders' meetings of the Company.

Payment Terms of Debentures

Pursuant to the Subscription Agreement, no early redemption is allowed. The Company shall pay back the remaining principal amount after conversion to the Debenture Holder within ten (10) days from the Maturity Date.

Transfer of Debentures

The Debentures will not be listed on the Stock Exchange or any other stock exchanges outside Hong Kong. It may only be assigned or transferred to associates of the Subscriber or such other transferees approved in advance by the Company. The Company will disclose to the Stock Exchange should any Debentures are transferred to any connected persons (as defined under the Listing Rules) of the Group immediately upon the Company becoming aware of such transfer.

Undertaking of the Directors

The Directors have undertaken to the Stock Exchange that the Company will disclose to the Stock Exchange any dealings in the Debentures made by any connected persons of the Group (as defined under the Listing Rules) immediately upon the Company becoming aware of such dealing.

Reasons for Issue of Debentures

Since the second half of 2009, the increasing demand for graphite products has far exceeded the Company's existing production capacity. To keep up with this new market trend, the Company has decided to add more production lines and expand its production capacity. China has the richest graphite reserves in the world, while Luobei County in Heilongjiang Province, is number one in China. Since 2007, the Company, through its 85%-owned subsidiary, China Resources Development Group Limited (hereinafter "CRD"), has set up a graphite factory with three production lines in Lobei, China. Due to the impact of the recent financial crisis, the 15% shareholder withdrew its investment in CRD, and, as a result, CRD now is a wholly-owned subsidiary of the Company. It is the Company's current intention to add more production lines and increase its graphite production capacity in Luobei, China. At this point, the Company is raising funds as capital reserve needed for the expansion. Once the funds are available, the Company will increase its graphite ore reserve and expand its production capacity to enhance its position in the global market according to worldwide demand for graphite.

Therefore, the Directors (including the independent non-executive directors of the Company) consider the issue of US\$100,000,000 Debentures is appropriate, fair, reasonable and in the best interest of the Company. The Subscription Agreement was reached after arm's length negotiations between the Company and the Subscriber. The Directors consider that the Subscription Agreement provides a substantial amount of capital reserve to the Company and the terms of the Subscription Agreement are fair and reasonable as far as the Company and its Shareholders are concerned, and the Subscription Agreement is in the best interest of the Company and its Shareholders as a whole.

Expenses Incurred from the Issue of Debentures and the Use of Net Proceeds

Except the customary finder's fee and necessary printing cost, administrative cost and legal expenses which is estimated around US\$ 5,100,000, no other expenses will be incurred from the issue of the Debentures. Out of the remaining net proceed of around US\$94,900,000, the Company intends to use (i) approximately HK\$200,000,000 to shore up its graphite ore reserve, (ii) approximately HK\$230,000,000 to expand its graphite production capacity, (iii) HK\$150,000,000 as working capital for graphite production and sales, and (iv) the remaining as capital reserve for further development

INCREASE IN AUTHORIZED CAPITAL

As of the date of this announcement, the authorized capital of the Company is US\$140,000,000 divided into 14,000,000,000 Shares, of which 10,972,239,359 Shares have been issued and allotted as fully paid.

In order to facilitate the issue of the New Shares and provide for future expansion in the share capital of the Company, the Directors propose that the authorized share capital of the Company be increased from US\$140,000,000 to US\$500,000,000 by the creation of an additional 36,000,000,000 Shares.

The Capital Increase will be subject to the approval granted by the Shareholders at the EGM.

EGM

An EGM will be convened to obtain Shareholders' approval of the Special Mandate and the Capital Increase. A circular together with an EGM notice will be despatched to the Shareholders as soon as practicable.

Information of the Company

The principal activities of the Company are investment holding, and through its subsidiaries, the Company develops, explores and produces crude oil and graphite in Indonesia and China, and provides electronics manufacturing services in United Kingdom.

DEFINITIONS

“Capital Increase”	increase the authorized share capital of the Company from US\$140,000,000 to US\$500,000,000
“Company”	South Sea Petroleum Holdings Limited, a company incorporated in Hong Kong with limited liability and the securities of which are listed on the Stock Exchange
“Completion Date”	one business day following the date on which the Stock Exchange has granted the listing approval for the New Shares
“Conversion Notice”	a notice given by the Debenture Holder to the Company for exercise their conversion rights as per attached to the Debentures
“Conversion Period”	the period commencing from the day immediate after the Completion Date to 4:00 p.m. (Hong Kong time) on the Maturity Date.
“Conversion Price”	HK\$0.0775 (or US\$0.01, the par value of the Company’s Shares)
“CRD”	China Resources Development Group Limited, the joint venture established under the joint venture agreement dated 25 July 2007
“Debentures”	an aggregate of US\$100,000,000 6% interest convertible debentures due 2015
“Debenture Holder”	the Subscriber or any debenture transferees who hold the Debentures issued pursuant to the Subscription Agreement dated 4 August 2009
“Directors”	the board of directors of the Company
“EGM”	an extraordinary general meeting to be held and convene to obtain the Shareholders’ approval of the Special Mandate and the Capital Increase
“Group”	the Company and its subsidiaries
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

“Maturity Date”	9 December 2015
“New Shares”	a maximum of 10,000,000,000 Shares issuable upon the exercise of the conversion rights attached to the Debentures
“Share(s)”	the ordinary shares of the Company, with par value US\$0.01 each
“Shareholder(s)”	holder(s) of the existing shares of the Company
“Special Mandate”	the Shareholders granting their approval to the Directors to issue and allot a maximum of 10,000,000,000 New Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscriber”	Kelton Capital Group Limited, a private company which subscribed an aggregate of US\$100,000,000 6% interest Debentures on 9 December 2009 pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement dated 9 December 2009 entered into between the Company and the Subscriber for an aggregate of US\$100,000,000 6% interest Debentures due 2015

By Order of the Board
South Sea Petroleum Holdings Limited
Vivian Lam
Company Secretary

Hong Kong, 9 December 2009

As at the date of this announcement, the board of directors comprises of Mr. Zhou Ling, Ms. Lee Sin Pyung and Ms. Zhang Xue being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive director.